

15 October 1982

MEMORANDUM FOR: DCI

FROM:



25X1

SUBJECT: Pipeline Sanctions

1. The sanctions paper that OGI produced gives rise to a thought about the current imbroglio.

2. The direct objective of the current US sanctions policy is not to punish the Soviets for Poland, or to force a change in Soviet behavior. The direct objective is to force our allies to sit down with us to work out a prudent economic relationship with the Soviet bloc. In this precise sense, the Soviet role in the current dust-up is that of a bystander--albeit an interested one. Should the sort of East-West economic relationship this Administration is seeking come to pass, the Soviet national interest would of course suffer an important reverse. And Western security would be enhanced.

3. This point is more than semantic. If the direct objective of our sanctions policy is to bring the Soviets to their knees--or if this is perceived to be our objective--then the Administration is heading toward a major failure. If the direct objective of our sanctions policy is to bring our allies to the table--and if this is perceived to be our objective--we stand a decent chance of success.

4. It may not be helpful to say any of this publicly. But I have a strong sense that this needs to be said within our government.

5. From an intelligence perspective, we have focused closely on the effect of our sanctions on the Soviet Union. I wonder if we should do more work on the likely effect of our sanctions on moving the alliance toward a new economic relationship with Moscow.

6. The editorial in this week's ECONOMIST is well worth reading.



25X1

Attachment

SECRET

The
Economist

OCTOBER 9, 1982

Life with an Andropov

RUSSIA 1984
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Solidarity

What sort of Russia do we want to be living with by the year 2000, and what can we do to bring it about? Until both halves of the Atlantic alliance face up to that big question, none of the angry little questions that Americans and west Europeans are hurling at each other in 1982 can be given a proper answer. How to end the quarrel over the Siberian gas pipeline; how far western Europe needs to rely on American nuclear weapons for its protection; how to respond to the formal execution this weekend of Poland's Solidarity: all these things have to be slotted into the broader issue of how to make the Soviet Union a more coexistable place for the twenty-first century.

For most people, a coexistable Russia means a Russia that will no longer try to impose its will on the people of other countries for either ideological reasons or nationalist ones. It makes no difference to occupied Afghans and squashed Poles whether their fate descends on them in the name of Marx or of Mother Russia. What most people have not yet grasped is that two things are happening—or rather not happening—inside Russia in 1982 which provide a rare chance to coax late-Brezhnev Russia towards post-Brezhnev coexistability.

The Soviet Union has an unsolved leadership problem wrapped up in an unsolved economic problem. Its unsolved economic problem is the fact that its long-declining growth rate has now reached a point where, allowing for the distortions of Soviet statistics, it is hovering close to zero. The usual Soviet answer to economic difficulty—to throw even more investment and even more bureaucrats at it—no longer works. A different approach is needed. Russia's unsolved leadership problem is the fact that the long dotage of 75-year-old Mr Leonid Brezhnev—given a 50-50 chance of surviving another two years, on the latest American medico-intelligence guess—has not yet thrown up a successor who can be helped by the west to recognise what that different approach will have to be.

The two main present contenders for the Brezhnev succession are Mr Yuri Andropov and Mr Konstantin Chernenko. Of this unappealing pair, the less attractive is Mr Chernenko. He appears to be Mr Brezhnev's own preference, presumably so as to carry on Mr Brezhnev's combination of immobility at home and ideological-cum-nationalist heavy-handedness abroad.

The alternative, Mr Andropov, would be no break-

through to liberal enlightenment. This recently promoted ex-secret-policeman presided over the crushing of Russia's dissidents in the late 1970s, and probably ordered this year's closing down of the automatic telephone lines that provided a tiny earhole into Russia. Yet Mr Andropov, not being Mr Brezhnev's chosen yes-man, may be readier than Mr Chernenko to look at new ideas for rescuing the economy. He may have both the intelligence to recognise what is wrong with the present economic system, and the will to change it. Even Mr Andropov's reputation as a hard-noser in secret-police matters could, in a curious way, be a help: he is likelier to get his politburo colleagues' blessing for a policy of economic reform if they reckon he can be trusted not to let economic change spill over into political change.

Since there is no liberal internationalist on the Moscow scene, the best bet for the west is to wish the ailing Mr Brezhnev long life—because a sluggish Brezhnev means a sluggish Soviet foreign policy—and then hope he is followed by an intelligent conservative of the Andropov sort, who decides to get to grips with Russia's economy. This is where the west can help itself, and in the long run help Russia too.

Fewer workers, more need for reform

The core of the Soviet economic problem is revealed in one statistic. The number of new workers joining the labour force each year—about 2m until fairly recently, while the post-1945 baby-boom was still coming to working age—is dropping to an average of less than 1m in the 1980s. With fewer new workers, the only way to get the economy growing faster is a lot more output per worker. But higher productivity will not be achieved by more investment alone, because the Soviet record in getting more output out of more investment is dismal.

The only alternative is a much more flexible system of economic management—more decision-making power for managers, more incentives for industrial workers and collective farmers, more rewards for success, more penalties for failure. The time is past when the Soviet economy could be made to work by a mixture of patriotic exhortation and brute fear. The Brezhnev years have given the Soviet citizen no share in political power, but they have accustomed him to an easing of the old Stalinist terror. The "command"

economy no longer jumps to order, shouted from above. The Soviet worker has to be given reasons of self-interest for working better. He wants to consume more of what he makes.

This failing power of the whip is the west's opportunity. It is true that imports account for only a few per cent of Russia's national income. It is also true that Russia can laboriously and expensively make for itself some (but not all) of the things it now imports from the west. Nevertheless, those few per cent matter.

The squeeze is at the margin

When every new Soviet investment decision is a painful choice between squeezing the defence budget and squeezing the consumer, and when the consumer is getting as hard to squeeze as the generals have always been, every new subsidised import from the west provides the Soviet government with a cushion for its defence budget and an excuse to put off yet again the day when it will have to reform the way it runs the economy. A continuation of the present habits of east-west trade will make it likelier that Mr Brezhnev's successor is a Chernenko who keeps on trundling down the same old Brezhnev tramlines. A change in those habits will make it likelier that he is an Andropov who risks reform.

From now on, the west should decide to conduct its economic relationship with Russia as part of its wider political relationship with that country. This does not mean "cutting off trade with Russia". Where trade brings equal benefit to both sides, it should continue. Where it brings a one-sided benefit to Russia—which happens whenever Russia gets subsidised western exports or subsidised western credits—it should not continue. The hopeful old idea that trade of any sort is a good thing because it makes for peace was long ago proved miserably false. The two great wars of this century began between countries that traded massively with each other. The 1970s, which saw the great expansion of credits for the communist world, also saw the expansion of communist military power into Africa and the Middle East. The fallacy should not be prolonged for Russia's benefit.

The message for Mr Andropov is that peace makes for trade, not the other way round. If he accepts a policy of genuine coexistence, he will need to spend less on Russia's armed forces, and the west will trade with him on generous terms. The incentive-based reform the Soviet economy needs will then be much easier to finance. If he carries on with an Angola-Afghanistan-and-Poland sort of policy, he will not only have to keep military spending up at 13-14% of gnp (and perhaps increase it as the west counter-arms) but he will also have to make do with a stripped-down, strict-mutual-benefit-only trading relationship with the west. That would mean ordering the Soviet people to tighten their belts yet another notch, probably by a risky return to near-Stalinist methods of discipline. The chances are reasonably good that Mr Andropov will prefer to have his leadership go down in the Soviet history books as a period of revitalisation at home and peace abroad.

In a well-ordered western alliance, the allies would

months ago have been earnestly debating long-term objectives like this, instead of squabbling over the Siberian pipeline and the size of the squeak to be uttered about Solidarity's suppression. Of course, the western alliance is no better ordered than a collection of free nations ever is. The Europeans accuse the Americans of jerkiness, of shifting policy to each change in the international wind. The Americans accuse the Europeans of inertness, of failing to respond to evident challenges. There is some truth in both complaints. The psychology of Europeans and Americans is different, because history has treated Europe and America in different ways and the difference has left its mark on the way they react to events. Bouncy America leaps; wary Europe waits and sees.

The aim now should be to use the shock of the Euro-American row to pull both sides into seeing their shared long-range interest and working out a shared long-range policy towards Russia. In *The Economist's* view, it is probably too late to reverse the decision over the Siberian gas pipeline. It would have been better if most of western Europe had not chosen to make itself dependent on Russia for a worrying amount of its future energy consumption, thereby providing Russia with a large annual hard-currency income. But the planning for alternatives was not done in time; the contracts with Russia have been signed; the Americans woke up to their dislike of the idea too late. The pipeline, or at any rate its first section, will probably go ahead. The Reagan administration should accept this, and call off its sanctions on the companies helping to build the pipeline—provided the Europeans join in a sensible long-term economic policy towards Russia.

Two-handed wall-building

The kernel of this policy would be an agreement that, so long as Soviet foreign policy stays unsoftened, the west will do nothing that directly or indirectly strengthens the Soviet military machine or helps the Soviet government to slide out of its own hard economic choices.

At a minimum, this means tightening the Cocom controls on high-technology exports to Russia (Cocom's present dog-eared list of forbidden exports includes things where Russia's technology long ago caught up with the west's, and omits other things the west has invented since the list was last amended) and firmly declining to subsidise any future exports to Russia, or the credits with which Russia is helped to buy them. That last item will involve inventing a lynx-eyed supervising body to discover exactly who is providing how much subsidised credit to Russia, since this has so far been cunningly concealed in murk.

This is not "economic warfare", *pace* France's Mr Claude Cheysson and others. It is economic containment. The purpose is exactly the same as the purpose of the original military containment policy devised a generation ago: to make it harder, and costlier, for Russia to contemplate a policy of imposing its will on other countries. Does any sensible defensive alliance let one hand pick holes in the wall of containment which its other hand is trying to keep intact?